



51859 7081

# THE NEXT GENERATION

*The*  
**MOST  
INTRIGUING  
MARKETERS  
of  
1996**

**A NEW BREED WHOSE INFLUENCE WILL IMPACT 1996 MARKETS**

51859 7082

# Dirk Herrman

Senior Marketing Manager R.J. Reynolds

**M**ost people dream of being able to marry their job with their favorite hobby. Dirk Herrman has managed to do it.

As creator of Moonlight, R.J. Reynolds' new, micro-style line of cigarettes, Herrman is building a brand that derives much of its image from quirky, eye-catching packaging. To do so he's drawing on his skills as an artist, honed while studying at the Art Institute of Chicago and Mexico's Instituto de Allende.

In tobacco, "packaging is so under-utilized," said Herrman, who has a studio in his house where he paints in his free time. "The opportunity was not to try to change current brands, but to break out of the pack and start bringing art into this category from a packaging standpoint."

The idea for Moonlight stemmed from Herrman's desire to create a viable new brand within the hyper-competitive \$47 billion U.S. cigarette market, which is dominated by older, well-established brands. Ads for the new line, which do not mention RJR, convey a folksy, home-grown image. Creating a micro-style image for a new brand is a strategy that's worked for beer companies; for example Miller, which has found success with Red Dog, sold under the Plank Road Brewery sub-brand. Miller parent Philip Morris is currently testing its own micro-style cigarette brand, called Dave's.

"This is a category of big brands and big budgets," Herrman said. "My concept was, let's do multiple brands without spending a lot of money." RJR is backing the launch with a print campaign budgeted in the low seven figures. Compare that to the \$12.5 million it spent in 1994 on Winston, its biggest brand.

Herrman came to RJR in 1991 after 12 years working in advertising at various Chicago agencies. He spent his first four years at RJR working on such brands as More, Now, Salem and Vantage. The move from agency to client was a big improvement, Herrman said. "For me, adver-



## the Next Generation

tising can be somewhat frustrating. You're much more of a supplier who suggests, cajoles and recommends," he said. His work at RJR "is so much more proactive, more entrepreneurial."

In the fall of 1994, Herrman presented the idea of

a sub-branded line of distinctive-looking cigarettes to RJR president/ceo Andrew Schindler. He was given the go-ahead in April, and between April and August he and a team of people from across RJR worked feverishly to create Moonlight. The brand name came in part from the fact that Herrman developed Moonlight while continuing to oversee existing brands.

The seven-brand Moonlight line rolled out earlier this fall in Chicago, New York and Seattle. Herrman acknowledges it will be no easy feat to convince brand-loyal smokers to try something

new. He and his team, along with designers at Cornerstone, N.Y., worked hard to make the line distinctive enough to provoke at least a second glance, and hopefully a decision to give the brand a try. B's, Politix, City, Northstar, Jumbos, Metro and Sedona cigarettes each have their own distinctive package. To further differentiate them, two brands, B's and Sedona, contain honey-toasted tobacco. City cigarettes have a unique granite-colored filter. It's too early for sales results, Herrman said, but anecdotal evidence suggests that "where the product is available, it seems to be moving very well."

If the initial brands prove successful, there are plenty more waiting in the wings. "We've probably got another 30 things that are interesting and have real potential," Herrman said. "Hopefully we have created an ongoing process."

The challenges of launching a new brand in a competitive category are compounded by the special restrictions placed on tobacco, he said. "You and I could make salsa in our bathtub and sell it," he noted, but cigarettes come with the built-in restrictions of a complex distribution system, limited available media and their own taxes, which vary from state to state.

"This is one of the toughest marketing challenges out there," he said. "As a painter, you stretch a giant canvas and say, 'what am I going to do with it?' You come into this category and there's a box, and you have to figure out how to work within that box." —Pam Weisz

### VITAL STATS

**Age:** 36

**Education:** Northwestern University, B.A.; Northwestern Institute of Advanced Advertising Studies. Also studied art at the Art Institute of Chicago and the Instituto de Allende, San Miguel del Allende, Mexico.

**Favorite Marketer:** Levi Strauss. "They remain innovative from both the product and image standpoint in a mature category."

**Most often heard saying around the office:** "If we're not having fun, we're probably doing something wrong."

**It's tough being a marketer in the '90s because:** "It's become so competitive. We have reached a point of certain brand maturity where price, value has become stretched."

**Career if not marketer:** Painting in New Mexico

M A R K E T I N G

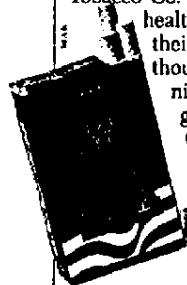
## You Are What You Smoke

Ready for 'microcigs'?

**F**IRST THERE WERE "MICROBREWS," those trendy one-of-a-kind beers. Now there are "microcigs," custom-blended smokes that, these days, are the coolest thing since the Marlboro Man. Several of these small-bore specialty manufacturers have sprung up across the country over the last few years, producing everything from all-natural Native American Spirits to New Age blends like Magic Herbal. They've grabbed less than 1 percent of the market—but in a \$44 billion industry, that's nothing to cough at.

Exotica sells, it seems, especially as smokers are pushed out of offices and restaurants—and farther out of the mainstream. Why has Gunsmoke, a recent new brand by Star Tobacco, found a market among thousands of Americans who like to light up? Its rugged "Western" blend somehow appeals to smokers in the heartland, and it burns a minute and a half longer than more conventional fare. Or take American Spirits, manufactured by Santa Fe Natural Tobacco Co. It sells to (believe it or not)

health-conscious smokers who like their smokes "all natural," even though they contain more tar and nicotine than Marlboros. Even giant R.J. Reynolds Tobacco Co. is trying to hide its sullied corporate image behind a smoke screen, marketing new brands like Jumbos under a pseudo-independent label, Moonlight Tobacco Co. The tiny target for Jumbos: folks who want fat cigarettes that are a cross between everyday butts and Castro-size stogies.



**Not so fringe** for Jumbos: folks who want fat cigarettes that are a cross between everyday butts and Castro-size stogies.

Jumbos aren't about to rival Camels or Kents. But microcigs are more than a passing fad. With the industry under attack from antismoking activists, folks are smoking less but smoking better, says Diana Silvius Gits, owner of the Up Down Tobacco Shop in Chicago. "Before, people would smoke like they were going to a fire. Now they enjoy what they're smoking." Barriers to entry are falling, too. Small manufacturers can now buy used equipment from big companies who've modernized. As "boutiques" spring up in the shadow of the Big Boys, more puffers will have microsmokes to go with their microales. ■

# PUGET SOUND **BUSINESS JOURNAL**

VOLUME 16, NUMBER 36

ONE DOLLAR

JANUARY 19-25, 1996



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A service called Bess patrols for porn

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Largest Puget Sound-area cities

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Boutique smokes target  
Seattle, page 8

## Boutique cigarette marketers light up over Seattle

**Editor's note:** With this issue, the "Marketing and Media" column will be taken over by reporter Nancy J. Kim. If you have news or information about the marketing or media businesses, call Nancy at (206) 583-0701, fax it to (206) 447-8510, or mail it to Puget Sound Business Journal, 720 Third Ave. Suite 800, Seattle, WA 98104-1811.

Boutique cigarettes, the American tobacco industry's equivalent to microbrews, seem to have an affinity for Seattle, despite the state's tobacco-adverse politics.

Washington has the highest cigarette tax, 81.5 cents per pack, of any state in the country, according to the American Lung Association. And Seattle itself is characterized as an outdoorsy, health-minded mecca where even many of the pubs are smoke-free.

R.J. Reynolds concedes that Seattle is not usually on the short list of cities when it comes to launching new brands.

Nonetheless, R.J. Reynolds and Philip Morris, both of which traditionally spurn the Emerald City, selected Seattle as a test for niche-market smokes that sparked a media blitz. In the last quarter of 1995, The Moonlight Tobacco Co., a unit of R.J. Reynolds, rolled out seven brands — including Sedona, Politix and Jumbo — in Seattle, Chicago and New York.

Last February, the fictional Dave's Tobacco Co., a name with a distinctly parochial lilt, tested Dave's cigarettes in Seattle. In reality, Dave's is a subsidiary of Philip Morris, the New York-based tobacco giant.

Though Dave's are now available nationally, Moonlight cigarettes are still in limited distribution. Trend-hoppers wishing to sam-



### MARKETING AND MEDIA

Nancy J. Kim

ple a fat-filter Jumbo have to hop a plane to Seattle first.

So-called boutique cigarettes are characterized by "art-driven packaging," taking styling cues from microbrews and gourmet coffee — curiously enough, two of Seattle's specialties.

R.J. Reynolds describes Moonlight as "distinctly non-traditional brands of cigarettes." Moonlight's packaging jettisoned the tired traditional color scheme of "red for full flavor, green for menthol, and tan or yellow for lights," said Frank Lester, a company spokesman.

So the smoke begins to clear. Seattle's fringe community of artists and musicians, embracing the retro-chic ethos, rallying against big corporations, is the intended niche market.

"Like New York, Seattle has an artsy environment," said Lester. R.J. Reynolds' Dirk Herrman, a business executive with an art degree, developed the concept.

R.J. Reynolds declined to comment on preliminary sales of its newfangled product, but local tobacco shops reported "so-so" sales of Moonlight cigarettes.

Brown & Williamson, the Kentucky-based subsidiary of British-owned B.A.T., has not entered the new market. Maker of such brands as Barclay, Kool and Viceroy, the company declined to comment on any plans to introduce a similar product to com-

pete with Dave's or Politix.

It's probably not a far-flung prediction that if Brown & Williamson did assay the boutique business, Seattle would receive the dubious honor of getting the first puff.

### Short takes

• The Leonhardt Group, a Seattle-based graphic design firm, recently won two awards: "Best of Show" honors at the 1995 International Brand Packaging Awards in New York for its design of new bottle labels for Covey Run Vintners; and a

cable networks, including CNN, ESPN and MTV.

As general manager, she will oversee a staff of 90 spread out in four offices: Seattle, Tacoma, Everett and Bellevue. She replaces Penny Taylor, who was recently promoted to regional vice president of TCI advertising sales.

McConnell formerly served as Northwest Cable Advertising's director of sales/retail and has been with the company since 1987. Northwest Cable Advertising is a joint venture of TCI and Viacom.

• Public radio station KPLU-FM reports that it has successfully completed a public campaign to fund a full-time environmental reporting position for four years. The position will be filled by Jennifer Schmidt, who has been a reporter for the station for more than five years. The campaign was prompted by a \$30,000 challenge grant from the Bullitt Foundation.

• Herring/Newman Inc., a Seattle-based advertising agency, has acquired two new clients, Westlink

Courtesy R.J. Reynolds  
Seattle was one of a handful of markets in which R.J. Reynolds launched seven new brands.

runner-up award in the presentation category in *Adobe Magazine*'s Fifth Annual Design Contest for a self-promotional CD-ROM presentation for its effective incorporation of video, sound, photography, typography and graphics.

• Catherine McConnell has been named general manager of Northwest Cable Advertising, a Seattle-based company that sells local commercial air time for several

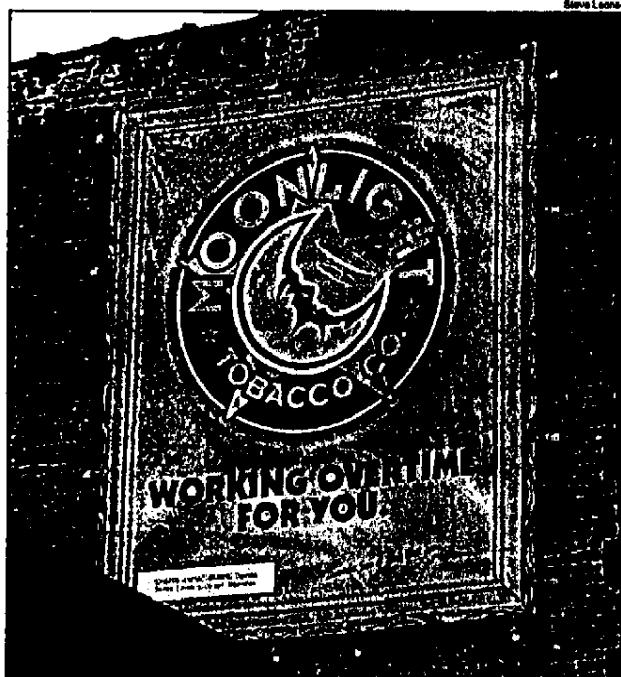
Paging Inc. and American Express. The agency will conduct focus group testing to determine its marketing strategy for Westlink, a paging services provider formerly known as US West Paging. Herring/Newman will create print and direct-mail campaigns for American Express SkyGuide, a monthly publication for business travelers. Combined billings are estimated at \$4 million.

# Advertising Age

Year's International Newspaper of Marketing • In Two Sections • Section 1 • \$3.00 • In Canada \$3.50

MAGAZINES  
THE PAPER CRISIS  
SPECIAL REPORT: November 6, 1995

## NEWS



RJR is underscoring Moonlight's alternative image with hand-painted ads.

## RJR dabbles with Moonlight

By Ira Teinowitz

R.J. Reynolds Tobacco Co., having launched its Moonlight Tobacco Co. and seven new brands with an unusual accent on package graphics rather than traditional advertising, is now using a similar strategy for its limited outdoor advertising.

Hand painted boards created by artist Tom Van Housen were erected last week in Chicago and will be up shortly in New York and Seattle, the other two cities where Reynolds is testing the selection of new cigarette brands.

"We wanted to give our advertising the same unusual feel as the new brands," said Dirk Herrman, the former RJR senior marketing manager for Vantage and More who came up with the idea for Moonlight and now heads the project.

Mr. Van Housen painted vinyl "canvases" that were then framed for hanging.

Mr. Herrman, now president of Moonlight, introduced the Moonlight brands two months ago calling them an alternative to typical brands, with graphics more akin to specialty coffees or beers than to cigarettes.

The seven brands, not all of which are sold in each city, include Jumbo, a wide gauge cigarette; City, with a granite filter; Bee, a honey-toasted smoke that features a bee mascot on each cigarette but no name anywhere; Sedona, another honey-toasted tobacco; Northstar, with a star filter; Politix, a play on the politics of smoking; and Metro, a thin menthol cigarette.

Moonlight's brands are sold at premium prices, often from a display that includes four different brands with widely different graphics.

There is no advertising for individual brands. Initial local advertising in the three markets from Vernacular Advertising, New York, merely features a collage of all seven package designs.

Mr. Herrman said RJR is trying to limit sales of the brands to stores that properly display them and to unique venues. One Chicago restaurant sells the cigarettes as an alternative to normal brands.

Initial response has been very favorable, generating repeat business, he said. He said the company is considering whether to try some new markets or add brands in current markets. □

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# New-look smokes by any other name are still cigarettes

**M**oonlight Tobacco Co. sure sounds like something from the backwoods or a craggy mountain top of North Carolina.

North Carolina is indeed the location of this budding business that has the backing of one of Tobacco Row's biggies, R.J. Reynolds Tobacco Co.

By yearend, the first wave of new offbeat cigarette brands from Moonlight will have been introduced to key markets in a move that parallels the marketing strategies of the micro-breweries.

Only last week, the first three brands—Jumbos, Sedona and Politix—were distributed in the Chicago area. The same brands next week hit the New York area, followed by Seattle later.

Depending upon consumer acceptance, these new smokes and others on the drawing boards will be available in other markets as well.

"We're not looking at big numbers," says former Chicagoan Dirk Herrman, a co-founder of Moonlight, a firm in Advance, N.C., not far from Reynolds' headquarters in Winston-Salem. "If we can eventually achieve a one-half to 1 percent market



**George Lazarus**  
ON MARKETING

share, we've got a success on our hands."

Moonlight's approach runs counter to traditional marketing in the cigarette business. For one thing, the firm is definitely thinking small and betting that art-driven if not unusual packaging can sell these smokes.

Some observers who have seen the packaging suggest the cigarettes may be aimed at consumption by young adults, perhaps further fueling Uncle Sam's concerns with underage smokers.

Jumbos packaging, for example, shows an elephant; the brand is so named because these are thicker cigarettes.

The Politix brand has a two-fingered peace symbol on the packaging with this copy: "Lighten up. Join the party."

As for Sedona, a honey-flavored cigarette, the name ap-



Barnes' new job appears to be lifted from the Arizona city of that name, but as Herrman says, "We just liked the cadence of the name." Herrman, whose stints with Chicago ad agencies include both client contact and media, freely acknowledges these are all names he came up with. And where do you suppose? Right at the kitchen table with his wife, the former Lucy Lakides, also from Chicago.

A senior marketing manager at Reynolds, Herrman brainstormed a new concept in tobacco marketing, then spent time at home on it.

When Herrman, 36, got around to naming it, Lucy suggested that "since you've been spending so much time moonlighting on this, why not 'Moonlight?'"

Herrman then went to Rey-

nolds management and got the go-ahead sign to set up this unit with Diane Roberts, a research-and-development specialist at Reynolds' headquarters, where Herrman also had been based.

Can Moonlight generate enough smoke? The consumer jury will be out for some time on this one, but every bit will help at Reynolds, whose recent market share is around 26 percent versus Phillip Morris USA's leading 46 percent, according to tobacco analyst John C. "Jack" Maxwell Jr. of Wheat First Securities in Richmond, Va. The tobacco industry itself is about a 480 billion-unit annual business.

**Pepsi signs Agassi:** Tennis whiz Andre Agassi, already picking up megabucks in an endorsement deal from Nike, now will be a pitchman for Pepsi-Cola Co. Agassi, defending his U.S. Open title this weekend, signed a global endorsement deal to promote Mountain Dew in the U.S. and a brand called Pepsi Max overseas. No doubt, Pepsi is laying top dollar on Agassi, but nowhere near the reported \$100 million he's supposed to be raking in from Nike under a 10-year contract.

■ Jill Weaver, a VP and management director at Foote, Cone & Belding Chicago, on Oct. 2 joins Northbrook-based Allstate Insurance Co. as VP-advertising. She'll assume a post formerly held by John Flieder, who retired at the end of May. Weaver will report to R.J. "Jim" Young Jr., VP-marketing for Allstate.

**Strictly Personal:** Birthday greetings to Heidi Fleischer, consultant Bob Wells, Ned Mitchell, Kathleen E. O'Leary, Cheryl Lewin, sports-caster Bruce Wolf, Jean Fitzgerald (Ameritech), Marco A. Berger and Tip Lifvendahl.

Terry Barnes, Ticketmaster Corp.'s Chicago-based VP and general manager of the Midwest region, was promoted to president-chief operating officer of Ticketmaster's newly formed Ticketmaster Ticketing Co. subsidiary. Barnes, who also becomes a corporate executive VP, will be relocating to the parent's headquarters in Los Angeles by yearend.

As expected, KeyCorp., a Cleveland-based financial-services holding company, assigned its \$30 million ad account to Young & Rubicam-New York.

# Business Day

The New York Times

WEDNESDAY, SEPTEMBER 13, 1995

## Advertising

### When the Smoke Clears, It's Still Reynolds

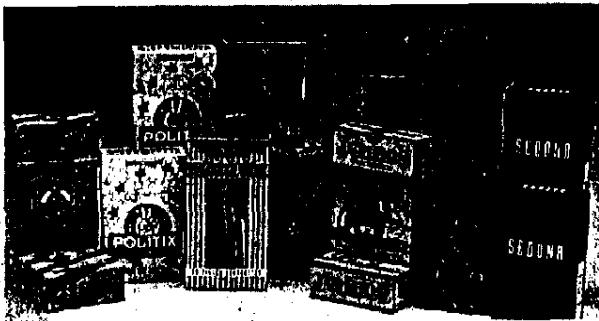
By STUART ELLIOTT

Dirk Herrman and Diane Roberts bill themselves as the co-founders and only employees of the Moonlight Tobacco Company, a new outfit in Advance, N.C., that is introducing a line of cigarette brands bearing funky names like Jumbos, Sedona, Politix ("Join the party!") and Bees ("Honey-toasted tobacco").

If smokers view Dirk and Diane as the Tobacco Road equivalents of Frank and Ed, the folksy fellows who sold Bartles & Jaymes wine coolers, the R. J. Reynolds Tobacco Company will be happy. Because 20 miles down the road from Advance, in Winston-Salem, N.C., is the headquarters of R. J. Reynolds, the nation's second-largest tobacco marketer — and the parent of Moonlight Tobacco.

R. J. Reynolds is moonlighting, you might say, pitching cigarettes under the Moonlight Tobacco label while continuing to sell venerable brands like Camel, Winston and Salem under its own well-known moniker. It's the same ploy that was used to sell Bartles & Jaymes, which is owned not by Frank and Ed but by the huge E. & J. Gallo Winery.

When conglomerates cloak the corporate connections of products and assume the trappings of smaller — and presumably more forward-thinking — concerns, it's a tactic known as faux or stealth parentage. The goal is to persuade consumers that the new brands are produced by iconoclastic, independent spirits rather



R. J. Reynolds Tobacco Company

R. J. Reynolds is assuming some of the trappings of a smaller concern, selling seven new cigarette brands under the name of the Moonlight Tobacco Company.

than calculating corporate minds.

"It's a fascinating concept to set up a different kind of corporate brand," said James R. Gregory, chairman of the Corporate Branding Partnership, a consulting company in Stamford, Conn., affiliated with the Gregory & Clyburne agency. "But to reach out to a new audience, to appeal to a different mind-set, you need to try new marketing techniques." Other examples of faux parentage include the General Motors Corporation's promotion of Saturn automobiles as "a different kind of car"

built by "a different kind of company," and the Coca-Cola Company's marketing of OK Soda with a campaign mocking conventional soft-drink sales pitches.

Practitioners of faux parentage see the benefit of increased sales as outweighing the risk of shoppers feeling deceived or betrayed when they learn an upstart actually has a big parent with deep pockets. Rather than undertaking the difficult task of changing the images of established

Continued on Page D10

#### When the smoke clears, those new cigarettes are really from Reynolds.

Continued From First Business Page

brands, the behemoths mimic the offerings of successful, less bureaucratic competitors. As with other weapons in the marketing arsenal, sometimes it works and sometimes it doesn't; in some instances, the products are hits but fade later.

"These strategies are probably smart," said John Grace, senior vice president of Gerstman & Meyers, a corporate identity and brand consulting company in New York, "because consumers for the most part don't know who makes what."

"If the product delivers, there's no wool over the eyes because you buy the brand, not the parent corporation."

Print advertisements for Moonlight Tobacco use colorful imagery to help mask its parentage. An Art Deco-style logo depicts a crescent moon, smoke rings coming from its mouth, above the slogans "Working overtime for you!" and "Smoke 'em if you got 'em." The text declares that Moonlight Tobacco's "mission is to make the most exciting and innovative tobacco products in America today and have fun along the way." Although the ads omit mention of any link to R. J. Reynolds, the connection is noted on the cigarette packs and acknowledged in brochures that describe Moonlight Tobacco as "a separate, independent company within" R. J. Reynolds.

"Here's a chance for people to better identify themselves as opposed to being associated with mass products," said Mr. Herrman, who started Moonlight Tobacco in April with Ms. Roberts. He was a senior brand manager at R. J. Reynolds, which is owned by RJR Nabisco Holdings, and she was a research and development specialist.

By donning disguises, marketing giants like R. J. Reynolds and E. & J.

Gallo hope to appeal to consumer sentiment that favors Davids over Goliaths. That is increasingly pervasive among consumers in their 20's and 30's, who regard many big brands as outdated or obsolete.

"We're in an era of backlash against bigness," said Myra Stark, a senior vice president of Saatchi & Saatchi Advertising in New York, owned by Cordant P.L.C. "It's become a basic belief of ours that when things get too big, they get inefficient and corrupt."

"This movement is very revealing of the American consumer," she added, because "we love the underdog coming up a winner, the small company taking on the biggies."

Davids now even have a cigarette named Dave's sold by Dave's Tobacco, the creation of "a guy named Dave," according to materials in test markets that describe him as an "entrepreneur who believes in the value of homemade products."

Truth be told, Dave's Tobacco is actually the Philip Morris U.S.A. unit of the Philip Morris Companies, the biggest tobacco marketer, which is better known for its best-selling brands including Marlboro and Virginia Slims. Dave is "a fictional character" meant to symbolize "a home-style, homespun campaign with a grass-roots feel," said Karen Daragan, a spokeswoman for Philip Morris U.S.A. in New York.

Faux parentage or not, the fact that the two largest tobacco companies are rolling out new brands shows that the industry is pushing ahead despite attacks by Federal regulators and antismoking forces.

Another arm of Philip Morris, the Miller Brewing Company, is using faux parentage in trying to compete against the so-called microbreweries and their popular brands like Samuel Adams and Pete's Wicked Ale. Miller is marketing two new beers, Red Dog and Icehouse, under the aegis of the Plank Road Brewery, the name under which Miller operated from 1855 to 1873.

Asked why Moonlight Tobacco is not identified as owned by R. J. Reynolds in its advertising, which was created by a small New York agency named Vernacular Commu-

niques, Mr. Herrman replied, "You can only communicate so much in an ad." The parentage is explained in the brochures, he added, which are being inserted into packs of the seven Moonlight Tobacco brands.

The trade publication Brandweek estimated this week that R. J. Reynolds was spending in the low seven figures to market the Moonlight Tobacco brands, which also carry the names City, Metro and North Star. They are now on sale in Chicago and New York and will be available later this month in Seattle; they are being advertised in publications like Details, Rolling Stone and Spin.

Diana Temple, an analyst who follows the tobacco and cosmetics industries for Salomon Brothers in New York, praised the R. J. Reynolds foray into faux parentage.

"Innovation in advertising is critical," she said. "What people in their 20's today want may be very different from what people in their 20's wanted 30 years ago."

However, she added, "It all depends on the execution and the image."

Indeed, the track record is mixed. While Red Dog beer is selling well for Miller, Coca-Cola announced this week that it would discontinue OK Soda because it was unprofitable. Saturn, too, has had its growing pains, but research indicates the brand has helped General Motors appeal to car buyers who might otherwise have gone for imports.

This arm's-length relationship can also be beneficial on the way down, said Mr. Grace of Gerstman & Meyers.

"If one of these products doesn't work," he explained, "you pull the plug, and it doesn't hurt the parent company" in the same way that a new product bearing the corporate name might.

Dave's, which is in three test markets, seems to be developing into a hybrid example. Dave's Tobacco is now being identified as a division of its parent, Ms. Daragan said, because of "the quality aspect" of association with Philip Morris.

Perhaps the company's next new cigarette will be named Phil's.

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# Business & Finance

## Smokes by MOONLIGHT

R.J. Reynolds tries a lighter approach with a microbrewery type of concept

BY SCOTT SOLOMON  
Staff Writer

WINSTON-SALEM — Dressed in a charcoal gray suit, white shirt and silk tie, Dirk Herrman hardly fits the image of an overall-clad, pinch-between-the-cheek-and-gum farmer one might conjure up after hearing the name of his business — Moonlight Tobacco Co.

But as a former advertising executive, Herrman knows it's the perception, not necessarily the reality, that will win over consumers.

"That said, Moonlight isn't the folksy, home-spun company the name implies. It's a division of cigarette giant R.J. Reynolds. Herrman, a senior marketing manager at Reynolds and the man who came up with the idea of launching Moonlight, is one of two executives working full time at the new division.

"Instead of spending a lot of money to introduce one new brand, we've taken a small amount of money, introduced seven new brands and kind of blown the doors off," 36-year-old Herrman says.

Though Moonlight's corporate address is the small town of Advance, Herrman and partner Diane Roberts work at Reynolds' headquarters 20 miles away in downtown Winston-Salem.

What separates Moonlight's brands from traditional Reynolds cigarettes such as Camel, Salem and Winston is the Art Deco packaging and spunky names: B's, Sedona, Politix, City, Jumbos, North Star and Metro. Moonlight is a take-off on the microbrewery concept used successfully by companies such as E&J Gallo Winery, which employed a couple of down-home pitchmen named Frank and Ed to hawk its Bartles & Jaymes wine coolers. Miller Brewing also has gotten into the act, setting up company called Plank Road Brewery to sell its Red Dog brand and other beers.

Two years ago Philip Morris rolled out a cigarette named Dave's. Promotional material claimed the product was sold by Dave's Tobacco Co.

Reynolds has been chided in the press for not putting the corporate name on billboards

"Instead of spending a lot of money to introduce one new brand, we've taken a small amount of money, introduced seven new brands and kind of blown the doors off."

and other Moonlight advertising. But Herrman points out that the packs themselves clearly identify the company as a division of R.J. Reynolds.

So far, Moonlight brands are being sold in only three markets: Seattle, New York and Chicago.

Moonlight is all about independence and choice and having the ability to be a little more expressive," Herrman says. He refused to discuss sales figures or how much money Reynolds has spent on advertising for Moonlight.

Herrman was working for the Chicago ad agency Foote, Cone & Belding in 1991 when a headhunter contacted him about an opening at Reynolds. The cigarette maker wanted a creative, think-outside-the-box executive to step into the company at management level.

A graduate of Northwestern University, Herrman studied art at the Art Institute of Chicago and in Mexico. As an advertising executive, he worked on campaigns for products including Head and Shoulders dandruff shampoo, Coast soap and Mr. Clean cleanser.

Herrman says his advertising experience taught him an important lesson: Listen to what consumers are saying, not what you want them to say, and give them what they want.

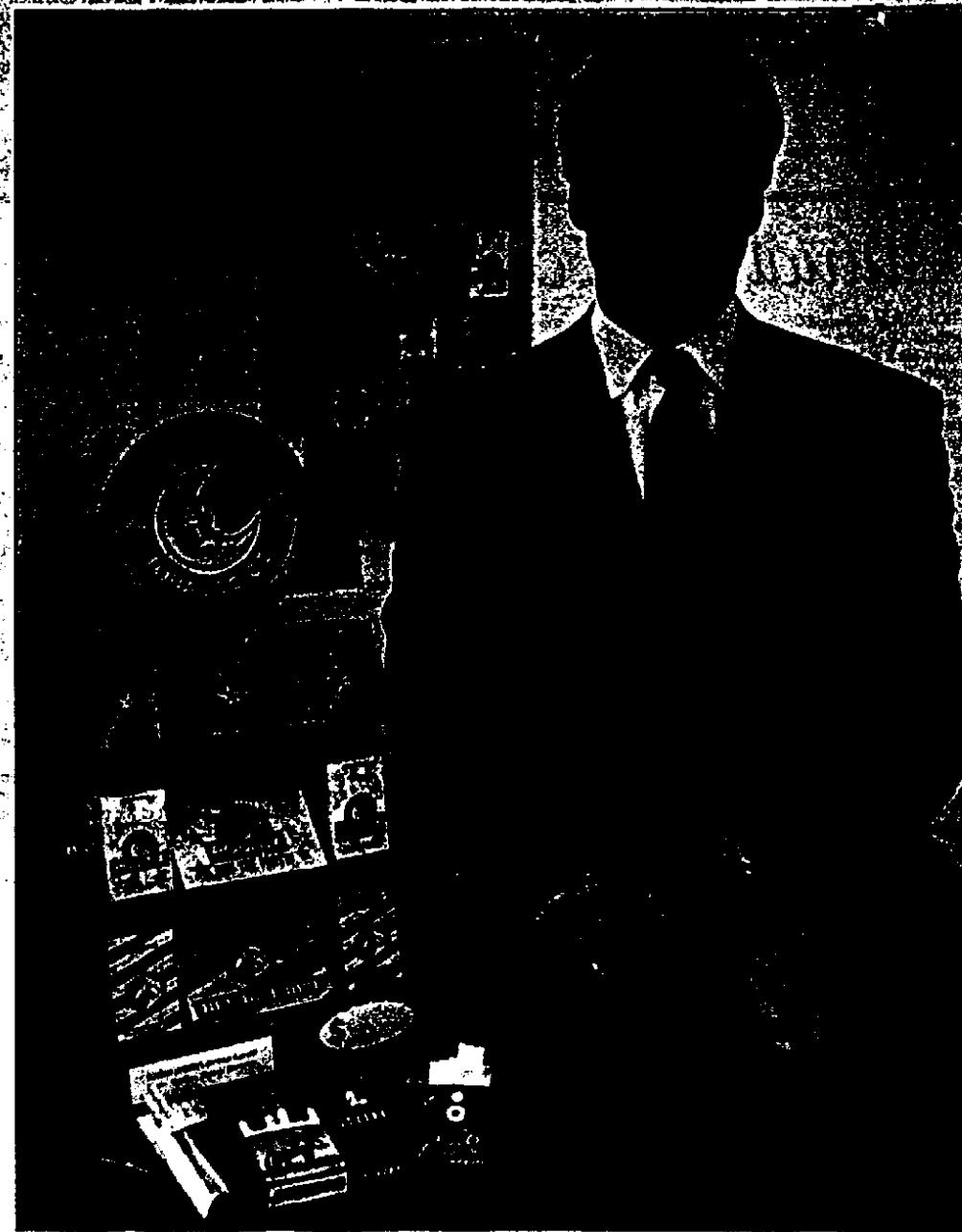
"It's a matter of trying to let consumers lead product development," he says.

Once at Reynolds, Herrman became senior marketing manager for Salem, Vantage, More and Now.

He says he had been kicking around the

Please see TOBACCO, Page E4

Dirk Herrman, senior marketing manager for R.J. Reynolds, is the mastermind behind the new Moonlight Tobacco Co.



Lynn Neary/News & Record

## BUSINESS AND FINANCE

# TOBACCO

Continued from page E1

idea for a micro-tobacco business at Reynolds for a while before a trip to one of the company's cigarette plants in Germany convinced him to move ahead.

Herrman noticed that the Reynolds brands produced in Germany had vibrant, artistic packaging and saw no reason why the company could not do the same thing here. In the fall of 1994 he pitched the idea to Andy Schindler, Reynolds' president and chief executive officer. He wanted Herrman to develop a game plan for the project by Christmas.

Herrman and his wife brainstormed ideas for the company at their kitchen table, coming up with about 50 possible brand names.

When Herrman set out to test the Moon-

light Tobacco concept, he didn't fall back exclusively on traditional methods such as bringing in a consumer focus group and paying each person \$50 to sit around and talk about the product for a few hours.

Instead, Herrman found his focus groups in the coffee houses of Seattle and the nightclubs of New York, haunts he felt suited Moonlight's target audience — smokers who considered themselves "trend-setters," not part of the pack.

The typical spiel went something like this: Herrman would introduce himself to customers, explain that he was starting a new tobacco company and that he would buy them a free drink in exchange for getting their reaction to some cigarette packs.

Once he had a few people seated around the table, he would flip down cards showing the various Moonlight brands. Customers would respond simply "yes" or "no."

"Instead of spending \$30,000 for focus

groups, I'd spend \$100 a night in free drinks," Herrman says.

Whether it's a different color filter or a quirky slogan, the cigarettes themselves have a different identity. Politix bears a hand in the shape of a peace symbol and the slogan "Lighten up." B's and Sedona contain "honey-toasted tobacco." City has a granite-colored filter.

"You pull these out and they make a statement, instead of the one-size-fits-all brands that are out there," he says.

But even for a company the size of Reynolds, developing a micro-business isn't cheap, says John Grace, a senior vice president of Gerstman & Meyers, a corporate identity and brand consulting firm based in New York.

"The venerable cigarette brands are well-known," he says. "Trying to establish new ones is very expensive."

And in the current political environment, selling cigarette brands new or old is going

to be tough.

To discourage young people from smoking, the U.S. Food and Drug Administration is developing regulations that would curtail cigarette advertising and marketing, regulations that would likely hurt Reynolds' efforts to develop Moonlight.

"There's no question this period is going to be damaging to all of the tobacco companies," Meyers says.

Asked about the pending FDA regulations, Herrman responds: "There's a lot of water that's going to go under the bridge before some of this stuff gets decided."

In developing Moonlight, Reynolds also has serendipitously discovered a new venue to market its products: art shows.

When Chicago artist Thomas Van Housen got hold of a few Moonlight Tobacco packs (his wife is the managing director of a public relations firm doing work for the company), he immediately thought "pop art." Since then, Van Housen has done a

series of Andy Warhol-style paintings depicting variations on the Moonlight logo and several brands.

Van Housen's Moonlight artwork, which sells for \$350 and \$700, already has been featured at a Chicago show. This week Reynolds is flying the artist to Seattle for a show at a gallery called the Art Bar. Reynolds already has bought 23 of the 41 paintings that will be on display.

"It's good for them (Reynolds) because it's generating interest, but I'm just a tiny part of what they are doing," says Van Housen, who hopes his paintings can travel to other cities as Moonlight is rolled out in new markets.

Though Herrman won't say whether when that will happen, competitors apparently are watching Moonlight with keen interest. He says he has heard of focus groups — not organized by Reynolds — popping up in the various test markets asking smokers to evaluate the product.

# BRANDWEEK™

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**NEW PRODUCTS** By Pam Weisz—R.J. Reynolds this month introduces a new, sub-branded line of cigarettes with a stylish yet folksy image, borrowing from techniques of big beer makers who've introduced microbrew-style sub-brands. RJR's Moonlight line, consisting of seven full-price sub-brands, rolls out first in Chicago, New York and Seattle. (Continued on page 8)

## AmEx Charges Into Supermarket Deals

**RETAILING** By Hillary Rosner and Terry Lefton—American Express is moving aggressively to gain acceptance at supermarkets across the nation, signing on grocery retailers eager to develop customized direct marketing opportunities by linking with AmEx's massive data base. (Continued on page 8)

## BRANDWEEK EXCLUSIVES

**Nabisco**'s healthier fare onslaught continues with **Ritz Air Crisps**. See page 5.

**Lincoln-Mercury** revs a \$50M, more family-friendly brand push, anchored by **Sable**. See page 6.

**Ocean Spray** inks a broad-based sponsorship of the **NCAA**, unseating **Coke**. See page 6.

**Valvoline** brings newly-acquired **Zerex** into its youthful do-it-yourselfer overtures. See page 6.

**Playtex** takes common sense position in new pitch to more youthful consumers. See page 7.

**Wal-Mart**, **Kmart** and **Sears** all on the hunt for co-branded credit card partners. See page 8.

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## NEW PRODUCTS

# RJR's Moonlight Smokes Micro Style

(continued from cover)

It's distinguished by unusual packaging and quirky elements, like the use of honey-toasted tobacco in two of the brands. RJR would not give a specific intro ad budget figure, but word is support for the roll-out will be "in the low millions" of dollars.

Print ads breaking in October show the Moonlight logo, a half-moon blowing smoke rings, but make no mention of Moonlight as a Reynolds unit. Copy describes how Moonlight is working to "make the most exciting and innovative tobacco products in America today and have some fun along the way."

"It's very difficult and expensive to introduce new [cigarette] brands," said Dirk Herrman, an RJR marketing exec credited as Moonlight Tobacco "co-founder." His solution: "Make the manufacturer important. What you will see is Moonlight Tobacco, driven by that logo."

The idea of niche marketing by a major manufacturer is one that's been successfully exploited by brewers. Miller, for example, has made a splash with Red Dog, sold under the Plank Road Brewery sub-brand. Miller parent Philip Morris has been testing Dave's, a discount cigarette with a down-home image. Ads refer to a fictional "Dave's tobacco company." P-M would not comment on the status of the test nor roll-out plans.

Moonlight's packaging, developed by Cornerstone, N.Y., should stand out in a category not given to visual excitement. B's come in a yellow-and-black striped box, while Metro Lights have an art deco look. The eye-catching graphics offer smokers

a chance "to better express themselves rather than associating themselves with a mass brand," Herrman said.

The cigarettes themselves are also different. B's and Sedona brands contain honey-toasted tobacco.



Line Is Herrman's brainchild.

aging carries the RJR name.

Ads, from Vernacular Communications, N.Y., will run in *Spin*, *Interview*, *Rolling Stone*, *Details* and regional publications like *The Village Voice*.

Even if it fails, the small-scale approach to the launch represents a minor investment to RJR, said John Maxwell, analyst at Wheat First Securities. ■

# Moonlight Tobacco



# Rekindling the Romance

## STAFF REPORT

Several major U.S. cities are currently being introduced to the Moonlight Tobacco Company, an upstart marketer of seven new off-beat cigarette brands. A division of R.J. Reynolds Tobacco Co. based in Advance, North Carolina, Moonlight is the brainchild of Dirk Herrman, a senior marketing manager at RJR who came up with the concept while brainstorming ideas at home with his wife.

Armed with eclectic brand ideas, Herrman, along with Reynolds' research and development specialist and Moonlight co-founder Diane Roberts, brought the concept to fruition, mostly after hours — moonlighting, as it were.

Advocates of "intrapreneuring" — the creation of dynamic new business within established corporations — Herrman and Roberts have produced some distinctly non-traditional brands. Moonlight's approach runs counter to traditional marketing in the cigarette business,



injecting style and niche-marketing into a segment accustomed to following long-established methods of producing large-scale brands. For one thing, the firm is definitely thinking small and betting that unusual, graphically-stimulating packaging will make consumers stand up and notice.

With microbreweries riding a red-hot national marketing trend, it

seems a natural that cigarette makers would try their hand at the technique. Moonlight's brand line includes Bees ("Honey-toasted tobacco"); Sedona; Politix ("Lighten Up! Join the Party!"); Jumbos (wide cigarettes); Northstar; and art-deco-inspired City. Each brand is available in Light versions. Moonlight's seventh product is Metro Lights and Metro Menthol Lights.

VIA SATELLITE



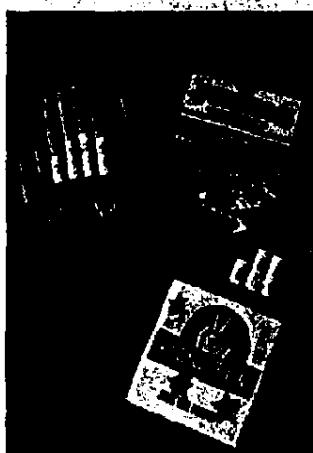
# Money

THURSDAY, NOVEMBER 16, 1995

## COVER STORY

# Cigarette makers focus on mystique

By Melanie Wells  
USA TODAY



By Anne Ryan, USA TODAY  
GenX smokes: Moonlight Tobacco targets Generation X.

anti-smoking backlash into a positive pitch for people who want to puff. From supporting smokers' clubs to launching premium brands aimed at luring young consumers, cigarette makers are stoking the mystique of smoking.

Their goal: To "enhance the exclusivity and cache of smoking," says Ken Harris, partner at marketing consultant Cannondale Associates. "They'll make smoking more attractive and, in so doing, get more users."

Tobacco marketers face major threats that could restrict their ability to market smokes, including Food and Drug Administration proposals to ban tobacco-brand-sponsored sporting events such as the Winston Cup car races and billboards advertising tobacco products within 1,000 feet of

Please see COVER STORY next page ▶

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# Tobacco firms woo new smokers

Continued from 1B

schools. The Interfaith Center on Corporate Responsibility recently persuaded newspaper publisher Knight-Ridder to ban cartoon-like ads such as R.J. Reynolds icon Joe Camel as well as ads that feature catchy phrases such as "Alive with Pleasure" critics say lure young smokers. Last summer, under an agreement with the Justice Department, Marlboro maker Philip Morris pulled cigarette ads at sports arenas within range of TV cameras.

Tobacco marketers have faced apparent death knells before. Bad publicity about the health hazards of smoking has clouded the industry for nearly four decades. Cigarette ads have been banned from TV since 1971. Faced with new threats, industry critics are wary about what the tobacco companies have planned.

Says Alan Blum, founder of Doctors Ought to Care, a Houston-based anti-tobacco group: "What they have up their sleeves you won't be able to recognize as cigarette advertising."

Indeed, tobacco companies and their image doctors are positioning marketing efforts for whatever hand is dealt. "My industry will inevitably find other ways to market a product that's legally sold in the USA," says Kevin O'Neill, president of Warwick Baker Fiore, ad agency for UST, the leading maker of smokeless tobacco and snuff (Copenhagen, Skoal) with 83% of the U.S. market. UST is already promoting a "Rock the Smokies" concert in Newport, Tenn., next summer. And Philip Morris is heavily promoting a contest for 2,000



By Ernie Leyba

**Smoking haven:** David Mosteller is owner of the Aviator's Club at Denver airport.

winners who will ride a luxury 20-car Marlboro Unlimited smokers' train next year.

Also in the works:

► **Specialty smokes.** R.J. Reynolds targeted Generation X-ers with the September introduction of Moonlight Tobacco specialty cigarettes. The line features artsy packaging and seven premium brands with names like Politix, Sedona, Jumbos and North Star. They're now available in New York, Chicago and Seattle — three of the nation's top trend-setting cities — and borrow a page

from the marketing of micro-brew beers by targeting consumers who have a taste for upscale niche products.

Promotional events are a big part of RJR's push. Last month, Moonlight brands were in copious supply on racks at a Campari cocktail party for Seen magazine in Manhattan.

Reynolds spokesman Frank Lester says the brands' packaging attracts smokers who "want something to relate to other than the brands your grandfather smoked."

There are also subtle messages on packs, such as "Join the Party!" and "Lighten Up." Their introduction follows the rollout of specialty brands from smaller companies, including Gunsmoke from Star Tobacco.

► **Smoking havens.** Philip Morris, which is already spoofing smokers' plights to

Philip Morris is said to be explor-

ing development of its own smoking clubs. It has shown interest in The Private Smoking Club, a Cincinnati outlet that sells imported cigarettes, gourmet coffee and alcoholic beverages to 3,000 customers a week.

"Representatives from Philip Morris are in every month looking at the club and taking pictures," says owner Ben Thorman.

► **Tobacco shops.** Retail outlets are on the rise. Tobacco companies don't yet run their own in the USA, but they spend generously on in-store promotions — including signs, displays and incentive offers — in places such as Smokers Hub in Waterford, Mich. The Tinder Box, an upscale tobacco store located in a Houston Kroger supermarket, is considered a model for others.

Getting consumers to associate tobacco with gourmet goods is a major effort among cigarette companies, says marketing consultant Harris. He says that will be evident in Sam's Wine and Liquor Warehouse, a Chicago megastore that will sell liquor, gourmet food and smokes beginning early next year.

Critics, however, liken some of these efforts to the days of Prohibition, when speakeasies sprang up to cater to outlaw drinkers.

"This is a throwback to the days when tobacco shops were places you went to smoke and where you left your pipe and your blend (of tobacco)," says John Slade, a physician and president of Stop Teenage Addiction to Tobacco.

Says Matt Myers of the Coalition on Smoking OR Health: "This is exactly the type of action feared and expected as they try to get around any advertising restriction that Congress or the Food and Drug Administration may impose."

Meanwhile, tobacco companies continue to funnel big bucks to Madison Avenue and Capitol Hill.

Cigarette ad spending totaled \$442 million in 1994, up 34% from \$329 million in '93, according to ad tracker Competitive Media Reporting. Marlboro, the world's largest cigarette brand, was supported by \$96 million in ad spending last year, up 27% from '93. The pace is accelerating. Through the first half of this year, Philip Morris raised Marlboro ad spending by 40% from the first half of '94.

Tobacco companies, always major spenders in the political arena, increased Republican party "soft money" contributions fivefold to \$1.5 million the first six months of 1995 from the same period in '94, says Common Cause, the advocacy group chiefly known for campaign finance reform efforts. Philip Morris, RJR and Brown & Williamson were the top three contributors to GOP national party committees.

The tobacco giants also are becoming more aggressive on the legal front against the media. Earlier this year, Philip Morris settled a \$10 billion libel lawsuit against Capital Cities/ABC over a critical ABC News report. The company extracted a rare public apology from the company, then crowded about it in several full-page ads in leading newspapers. Sunday, the threat of legal action prompted CBS' 60 Minutes to rework a report on the industry.

Notes marketing consultant Don Peppers. "As Samuel Johnson said, There's nothing like being a fortnight away from one's own hanging to sharpen one's mind." Hey, meet the tobacco companies."

Contributing: Doug Levy